

Message Text

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12

ACTION EUR-12

INFO OCT-01 AF-08 IO-13 ISO-00 SP-02 USIA-15 AID-05 EB-07

NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 PA-02 PRS-01 /117 W

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R 130931Z JUL 76

FM AMEMBASSY BERN

TO SECSTATE WASHDC 2864

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS UNN

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USDEL MTN GENEVA UNN

AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 3093

PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, ECON, SZ

SUBJECT: SWISS FINANCIAL AND ECONOMIC REPORT: JULY 4-10

1. SUMMARY: DOLLAR FIRMED SLIGHTLY THIS WEEK. GOLD DECLINED FURTHER. SWISS NATIONAL BANK (SNB) REDUCED CAPITAL MARKET LIQUIDITY SF 3.1 BILLION. PUBLIC DEBATE FOCUSED ON GOVERNMENT'S TAX REFORM AND FINANCIAL PROGRAM DURING PARLIAMENTARY RECESS. PRESS PREDICTS FAILURE IN REFERENDUM NEXT SPRING. SWISS UNION INDUSTRY AND TRADE SURVEY SCORES GOVERNMENT ECONOMIC MEASURES AS INTERFERENCE IN MARKET ECONOMY PLACING UNBEARABLE BURDENS ON SMALL FIRMS. UNEMPLOYMENT 0.7 PERCENT END

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OF JUNE. NEW LAW WOULD LOWER NUMBER SEASONAL FOREIGN

WORKERS PERMITTED IN SWITZERLAND. WHOLESALE PRICE INDEX END JUNE UP 0.2 PERCENT FROM JUNE 1975, CONSUMER PRICE INDEX UP 1.1 PERCENT. ECONOMIC ESPIONAGE TRIAL ENDS IN CONVICTION.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: MARKET MODERATELY ACTIVE UNDER PRESSURE FROM BRITISH POUND. CALM FRIDAY AFTER POUND WEAKENED. DOLLAR ROSE FROM SF 2.46 TO SF 2.47, DM100 REMAINED SF 95. GOLD DECLINED FROM 123 TO 122. RATES FOLLOW:

	7/5(OPEN)	7/9(CLOSE)
SPOT DOLLAR	2.4669	2.4742
FORWARD DISCOUNTS(PCT.P.A.)		
ONE MONTH	5.25	5.34
2 MONTHS	5.08	5.02
3 MONTHS	5.01	4.98
6 MONTHS	4.74	4.65
12 MONTHS	4.33	4.32
SF/DM	95.63	95.95
GOLD	123.20	122.3

3. MONEY AND CAPITAL MARKET: SNB REDUCED MARKET LIQUIDITY; CALLED IN SF 3.1 BILLION IN CREDITS AND SWAP ARRANGEMENTS PROVIDED BANKS END OF JUNE. MARKET REACTED; CALL MONEY JUMPED 0.25 PERCENT TO 0.5 PERCENT FOR FIRST TIME IN MONTHS. STOCK MARKET CONTINUED IMPROVE; SKA INDEX (1959 EQUALS 100) 213.3 JULY 8; HIGHEST SINCE JUNE 1974. PREVIOUS PEAK MARCH THIS YEAR. MEDIAN YIELD CONFEDERATION BONDS 5.15 AFTER SLIGHT WEEK-LONG FLUCTUATION. RECENT NEW ZEALAND DEVELOPMENT LOAN, SF 80 MILLION AT 6.25 PERCENT INTEREST FOR 15 YEARS, CONSIDERABLY OVER-SUBSCRIBED.

ECONOMIC

4. TAX REFORM: PUBLIC DEBATE DURING SUMMER PARLIAMENTARY RECESS FOCUSED GOVT'S TAX REFORM AND FINANCIAL PROGRAM FOR COMING FOUR YEARS. IN AUGUST COUNCIL OF STATES TAKES UNCLASSIFIED

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UP MEASURES RECENTLY PASSED NATIONAL COUNCIL; PRIMARILY VALUE ADDED TAX (VAT) OF 10 PERCENT EXPECTED RAISE ADDITIONAL SF 3 BILLION REVENUE; DIRECT FEDERAL TAX EXEMPTION LIMIT TO BE RAISED FROM SF 9,000 TO SF 18,800 AND MAXIMUM RATE TO BE INCREASED FROM 11.5 TO 14 PERCENT. ENTIRE PACKAGE WILL GO BEFORE PEOPLE IN NATIONAL REFERENDUM NEXT SPRING. SWISS BANKERS' ASSOCIATION URGED COUNCIL OF STATES REDUCE TAX RATES ON HIGHER INCOME BRACKETS AND CORPORATION; FEAR

SWITZERLAND WILL BECOME HIGH TAX COUNTRY, WITH DECREASED
PRODUCTIVITY AND FLIGHT OF FIRMS. BANKERS STRESSED
NEED PASS VAT AS PRIORITY NEW REVENUE SOURCE. EDITORIALISTS
PREDICT FAILURE GOVT'S PROGRAM IN SPRING REFERENDUM
DUE INTERNAL LIBERAL VS CONSERVATIVE DIVISIVENESS
POLITICAL PARTIES AND POPULAR CONCERN GROWING PROER
FEDERAL OVER LOCAL GOVT.

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PASS TREASURY AND FRB

5. GOVT INTERVENTION: SWISS UNION INDUSTRY AND
TRADE (VORORT) CALLED ON GOVT WEIGH IMPACT
MEASURES TAKEN FOR LABOR, SOCIAL, FISCAL AND ECONOMIC
POLICY REASONS AFFECTING SMALL, MEDIUM SIZE FIRMS. VORORT
SURVEY 500 SMALL FIRMS REPORTED GROWING VIEW GOVT

INTERVENTION IN ECONOMY CREATES INCREASED BURDENS DETRIMENTAL TO PROFITABILITY. EIGHTY-ONE PERCENT FIRMS INTERVIEWED FELT MERGER WITH LARGER FOREIGN (48 PERCENT) OR DOMESTIC (33 PERCENT) FIRMS NECESSARY TO WITHSTAND BURDENS IMPOSED BY STATE INTERVENTION IN MARKET ECONOMY; 65 PERCENT SAID MUST CHANGE BUSINESS STRUCTURE TO CONTINUE OPERATING. MORE SMALL FIRM FAILURES PREDICTED UNLESS TREND REVERSED.

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6. UNEMPLOYMENT: JOBLESS RATE DECLINED 13.9 PERCENT IN JUNE TO 0.7 PERCENT LEAVING 19,682 UNEMPLOYED, 26.8 PERCENT UNEMPLOYED ARE FOREIGN WORKERS. IMPROVEMENT IN FIELDS CONSTRUCTION, GRAPHIC ARTS METAL AND MACHINES, HOTELS AND RETAIL SALES. UNEMPLOYMENT INSURANCE: GOVT COMMISSION STUDYING IMPLEMENTATION NEW CONSTITUTIONAL AMENDMENT ON COMPULSORY UNEMPLOYMENT INSURANCE RECOMMENDS FEDERAL COUNCIL SET CONTRIBUTION RATE AT 4 PERCENT MONTHLY INCOME UP TO SF 3,900 FOR BOTH WORKER AND EMPLOYER.

7. FOREIGN WORKERS: CONSULTATIONS UNDERWAY WITH LOCAL GOVTS ON NEW FEDERAL LAW GOVERNING FOREIGN WORKERS. NEW TEXT REDUCES ANNUAL QUOTA SEASONAL FOREIGN WORKERS (9 MONTHS) FOR CANTONS FROM 145,000 TO 110,000 WITH NEW RESERVE QUOTA ADDITIONAL 6,000 SEASONAL WORKERS IF NEEDED. CANTONS RETAIN QUOTA 6,000 ANNUAL WORKERS. REGULATIONS ON FRONTIER WORKERS UNCHANGED. FEDERAL QUOTA SEASONAL WORKERS DECREASED 3,000 TO 8,000; ANNUAL FEDERAL QUOTA URGENTLY NEEDED SPECIALISTS IN SCIENTIFIC RESEARCH, HIGHER EDUCATION; FEDERAL ADMINISTRATION AND ENTERPRISES RAISED 300 TO 2,500. SHORT-TERM PERMITS (6 MONTHS) WILL BE EXTENDED WHEN SUITABLE SWISS LABOR UNAVAILABLE. FOREIGN WORKERS MUST BE ASSURED EQUAL PAY AND WORK CONDITIONS AS SWISS AND BE ABLE FIND LODGING. NEW ANNUAL PERMITS GRANTED IF FOREIGN WORKER FREES SWISS LABOR FOR NEW POSITIONS OR CONTRIBUTES TO SWISS EXPORTS. NEW LAW EXPECTED ENTER INTO FORCE IN OCTOBER. CANTONS FEAR INSUFFICIENT MANPOWER WHEN ECONOMIC RECOVERY SPEEDS UP. GOVT POINTS OUT ONLY 59 PERCENT PRESENT SEASONAL QUOTA BEING USED.

8. ECONOMIC INDICATORS: PRICES: WHOLESALE PRICE INDEX END JUNE UP 0.4 PERCENT FROM END MAY AND 0.2 PERCENT END JUNE 1975 LED BY RAW MATERIALS, SEMI-FINISHED GOODS (CHIEFLY TEXTILES) AND SOME FOOD ITEMS WHILE FUEL COSTS EASED. CONSUMER PRICE INDEX END JUNE UP 0.2 PERCENT FROM END MAY AND 1.1 PERCENT END JUNE 1975. CPI ROSE 2.3 PERCENT FIRST SIX MONTHS 1976 AS COMPARED 8.2 PERCENT FIRST HALF 1975.

9. TRANSPORTATION: PASSENGER AND BAGGAGE TRAIN FARES WILL RISE AVERAGE 10 PERCENT WHEN NEW FARES INTRODUCED

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OCTOBER 27. FARE HIKE REQUIRED BY GROWING OPERATING COSTS
AND NEED REDUCE ACCRUED FEDERAL RAILROAD DEFICIT SF 574
MILLION.

10. TOURISM: SWISS TOURIST FEDERATION EXPECTS DIFFICULT
SUMMER SEASON WITH APPRECIATED FRANC BUT HOPES MAINTAIN
1975 LEVEL FOREIGN VISITORS.

11. SUBSIDIES: GOVT COMMISSION HANDLING SUBSIDIES TO
STIMULATE ECONOMY REPORTS 800 OF 1,400 REQUESTS APPROVED;
SUBSIDIES SF 52 MILLION SUPPORTING TOTAL SF 600 MILLION
PUBLIC WORKS PROJECTS.

12. ECONOMIC ESPIONAGE: BASEL CRIMINAL COURT JULY 2
SENTENCED IN ABSENTIA BRITISH SUBJECT STANLEY ADAMS;
FORMER PRODUCT MANAGER SWISS CHEMICAL AND DRUG FIRM
HOFFMANN-LA ROCHE, ONE YEAR SUSPENDED PRISON SENTENCE
FOR VIOLATION ECONOMIC INTELLIGENCE PROVISIONS SWISS
PENAL CODE. ADAMS SUPPLIED EC COMMISSION WITH INFORMATION
HLR VIOLATED EC COMPETITIVE RULES BY OBTAINING EXCLUSIVE
SALES AGREEMENTS THROUGH LARGE PRICE REBATES. EC COM-
MISSION OBLIGED HLR RENEGOTIATE QUESTIONABLE SALES
CONTRACTS. ADAMS BANNED FROM SWITZERLAND FIVE YEARS
THEREBY FORFEITING BAIL SF 25,000 AND MUST PAY COURT COSTS
SF 5,000.
ODELL

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